

Personal Financial Management - Lesson 8

Insurance Needs and Cost Factors

ENABLING OBJECTIVES:

Upon completion of this lesson, students will be able to:

- 8.1 Define the types of insurance available to them and how each type works
 - 8.1.1 Define how homeowners and renters insurance works.
 - 8.1.2 Define how automobile insurance works.
 - 8.1.3 Define different types of life insurance and how each works.
 - 8.1.4 Define types of health insurance and how they work
- 8.2 Define their insurance needs
 - 8.2.1 Property and casualty needs
 - 8.2.2 Minimum required and desired auto insurance limits
 - 8.2.3 Life insurance needs and how to calculate
 - 8.2.4 Health insurance needs
- 8.3 Understand the components of the SGLI program and explain how it works
- 8.4 Identify what death benefits are available to military families to include SGLI, Dependents Indemnity Compensation (DIC), veteran's benefits and Social Security survivor benefits
- 8.5 Understand insurance scams and fraud
 - 8.5.1 Identify different types of life insurance scams and consumer frauds
 - 8.5.2 Identify the major problems with life insurance solicitations to Sailors
 - 8.5.3 Understand how to deal with high-pressure sales tactics
- 8.6 Identify sources for assistance with each type of insurance need

REFERENCES:

1. OPNAVINST 1740.5A (Draft)
2. U.S. Navy's Personal Financial Management Standardized Curriculum (PERS 662)
3. OPNAVINST 1740.1 Fleet and Family Support Center Program

4. Command Financial Specialist Training Manual NAVPERS 15608C
5. www.lifelines2000.org
6. www.moneycentral.msn.com
7. www.accuquote.com
8. www.1stquote.com
9. www.1sttermquotes.com
10. Navy Legal Services Office
11. Fleet and Family Support Center
12. Navy Casualty Affairs Office

SLIDES:

- | | |
|------|--|
| 8-1 | Lesson 8 Title Slide |
| 8-2 | Types of Insurance |
| 8-3 | Homeowner's/Renter's Insurance |
| 8-4 | Homeowner's Policy |
| 8-5 | Renter's Insurance |
| 8-6 | Advantages of Homeowner's/Renter's Insurance |
| 8-7 | Automobile Insurance |
| 8-8 | Collision/Comprehensive |
| 8-9 | Liability |
| 8-10 | Liability Limits |
| 8-11 | Medical Coverage |
| 8-12 | Uninsured/Underinsured Motorist |
| 8-13 | Automobile Insurance Rates |
| 8-14 | Auto Insurance Tips |
| 8-15 | Life Insurance |
| 8-16 | Need for Life Insurance |
| 8-17 | Types of Life Insurance |
| 8-18 | Term Life Insurance |
| 8-19 | Annual Renewable Term |
| 8-20 | Level Term |

Personal Financial Management - Lesson 8

Insurance Needs and Cost Factors

- 8-21 Decreasing Term
- 8-22 Cash Value Life Insurance
- 8-23 Whole Life
- 8-24 Universal Life
- 8-25 Variable Life
- 8-26 Health Insurance
- 8-27 Navy Health Coverage
- 8-28 Dependent Supplements
- 8-29 SGLI
- 8-30 Death Benefits
- 8-31 Frivolous Insurance
- 8-32 More Frivolous Insurance
- 8-33 Insurance Frauds, Scams, and Sales Tactics
- 8-34 Sound Advice
- 8-35 Sources of Assistance
- 8-36 Summary Questions
- 8-37 Summary
- 8-38 Effects of Compound Interest

CASE STUDIES:

None

VIDEO TAPES:

None

NOTES TO THE FACILITATOR:

The main points of this topic are:

- \$ Categories of Insurance
- \$ Types of Insurance in Each Category
- \$ Defining Insurance Needs
- \$ How Military Benefits Affect Insurance Needs
- \$ Insurance Cost Factors
- \$ Shopping for Insurance
- \$ Frivolous Insurance
- \$ Sources of Help

I. INTRODUCTION

Managing risks is serious business and a big part of managing your financial future. Insurance should be a major part of your risk-management strategy. What is insurance, and how does it work? Insurance is the transfer of risk for a loss you cannot afford to a third party (the insurance company) in exchange for your payment of premiums to the company. In this lesson, we will discuss different types of insurance and how to define your individual insurance needs. We will briefly review Government programs that may mitigate some of your insurance requirements and identify scams, frauds, and high-pressure tactics often associated with the insurance industry. And, as in all our lessons, we will tell you where to go for assistance when you need it.

II. TYPES OF INSURANCE

There are four primary types of insurance as shown here.

SHOW SLIDE 8-1 INSURANCE CONSIDERATIONS**SHOW SLIDE 8-2 TYPES OF INSURANCE**

A. Homeowner's/Renter's.

1. This insurance protects your house and/or belongings from such threats as fire, wind storm and theft. It also protects you from liability to others. From the words, it would seem that the difference between homeowners and renters insurance is pretty thin, but from the insurance company's point they are quite different.
2. Homeowner's insurance is a combined policy that provides coverage for the building, and it's contents as well as liability protection. If your dog bites a neighbor, a homeowner's policy will cover the medical expenses and damages awarded as a result of a lawsuit. If you own a home with a mortgage you must have this coverage. And if you don't want to lose all of your savings in a fire, tornado, or lawsuit you want to have this coverage. Certain risks like earthquake, flood, war, or nuclear accident are usually not covered. These coverages are available, often from other sources, such as the National Flood Insurance Program, for an additional premium.

SHOW SLIDE 8-3 HOMEOWNER'S/RENTER'S INSURANCE**SHOW SLIDE 8-4 HOMEOWNER'S POLICY**

DISCUSSION POINT

RELATED INSTRUCTOR ACTIVITY

3. Renter's insurance is like homeowner's insurance, but it does not insure the actual building because it belongs to someone else. It covers loss of your possessions due to fire, theft, or storm and provides you personal liability protection. Many of you will need this type insurance when you rent an apartment or house. It's as critical if you live in government quarters, as the government may not cover all damage. You should always have your personal property insured
4. Fortunately, fires, storms, and home accidents are relatively rare. For this reason, homeowners and renters policies provide substantial coverage for relatively low premiums. Their liability umbrella may well be their most valuable feature. In short, this is a type of insurance you should probably consider having.
- B. Automobile Insurance. Automobile insurance provides the four basic protections shown here. To make informed decisions about your particular needs, you must understand what each of these does for you.

SHOW SLIDE 8-5 RENTER'S INSURANCE

**SHOW SLIDE 8-6 ADVANTAGES OF
HOMEOWNER'S/RENTER'S INSURANCE**

SHOW SLIDE 8-7 AUTOMOBILE INSURANCE

1. Collision/Comprehensive - Collision coverage pays for damage done to your car by YOU. Comprehensive covers damage done by others, damage while you are not in the car, such as vandalism, broken glass, and so forth. Each has a separate deductible and each has a premium. It is probably obvious that the collision coverage is the most expensive as the probability of damage from collision is the highest risk of car ownership. If you finance your car, the lender will require this insurance and most likely with a very low deductible. Most deductibles are \$250 to \$1000. The higher the deductible, the lower the premium. If you have the cash, raise the deductible. Put the money you save in a saving account.
2. Liability - This is the most important part of your coverage. It insures the damage you do to the “other guy”. Physical damage to his/her car, and the lawsuit you may encounter. Liability coverage is mandatory for all cars in every state.

SHOW SLIDE 8-8 COLLISION/COMPREHENSIVE

SHOW SLIDE 8-9 LIABILITY

3. Let me give you young ladies and gentlemen some very sound advice. Get all the liability protection that you can possibly afford. Liability is less expensive than collision (unless you are under 25 or have some traffic tickets). Also premium payments do not rise in direct proportion to increases in coverage. You can probably get five times the coverage for twice the cost. A judgement against you can follow you for the rest of your life – make sure you have enough liability coverage.

SHOW SLIDE 8-10 LIABILITY LIMITS

4. Medical - This portion of your policy covers you and your passengers for immediate medical treatment no matter who caused the accident. Typical coverage here ranges from \$1,000 to as high as \$10,000. It is very inexpensive and provides immediate help.
5. Uninsured/Underinsured Motorist - You will need this coverage in the event someone hits you and that person has no insurance or perhaps only the state required minimum and you are the one driving the Mercedes. If this happens, your insurance company will pay you. They will then sue the uninsured/underinsured driver and try to get any assets he may have, but the important point is you don't have to do that. If you carry this coverage, your insurance company does it for you.
6. Insurance cost for drivers under 25 are quite high, extremely high for those under 20. As you can see on this slide, if you plan to have a car, a significant portion of your budget will be car insurance. In some cases, your insurance premiums will be higher than your car payments.

SHOW SLIDE 8-11 MEDICAL COVERAGE**SHOW SLIDE 8-12 UNINSURED/UNDERINSURED MOTORIST****SHOW SLIDE 8-13 AUTOMOBILE INSURANCE RATES**

7. Lastly, there are a few tips on auto insurance. If you get traffic tickets or have several accidents, you will have to pay a much higher rate. In fact, if your driving record is so bad that your carrier cancels your insurance, you may have to pay a very high rate for what is called the “assigned risk pool” of bad drivers. Shop for insurance. There are a lot of different rates. If you have had drivers training, get the certificate and provide it. If your car has anti-theft systems, that could reduce your rates. Carry as high a deductible as your cash situation, or your lender will allow. Carry as much liability as you can afford.

SHOW SLIDE 8-14 AUTO INSURANCE TIPS

C. Life Insurance. Life insurance pays someone else if you die. Not a very nice thought. But if you have a spouse or children who are depending on your income, then life insurance is something you will want to consider. Simply put, life insurance insures your future income. If you don't have anyone depending on you for their financial well being, then you don't need it. But if you do, then you need to understand it and know how to calculate how much you need as well as what kinds make the most sense for you and your family.

1. Determining Need. Over the next 2-3 years, many of you will marry, and many of you will start families. So listen up. You can take care of your family and it is a profound responsibility to do so. Widows or widowers and children of men and women who did not prepare suffer greatly.

SHOW SLIDE 8-15 LIFE INSURANCE

SHOW SLIDE 8-16 NEED FOR LIFE INSURANCE

DISCUSSION POINT

RELATED INSTRUCTOR ACTIVITY

D. Types of Life Insurance. If you decide you need additional life insurance over and above the maximum SGLI amount, you will need to understand the various types of life insurance offered in the "civilian world." Do not neglect insurance needs for your spouse. There are two basic types, term insurance and cash value insurance.

SHOW SLIDE 8-17 TYPES OF LIFE INSURANCE

1. Term Insurance - The most basic. It provides a specified amount of protection for a specified number of years. That's why it is called "term". It is "pure" insurance as you pay only for the protection you need. It is relatively low-cost, particularly for the young. It is straightforward; therefore it is easy to compare rates between companies. However, the cost increases steadily with age, and there is no cash value to a term policy. There are three basic types of term insurance.

- a. Annual Renewable Term provides a specified amount of insurance with an increase in the premium each year. In other words, as you age, and the risk to the insurance company grows, so does your premium. Most of these policies expire at age 70 or 75. And, as you can imagine, the cost at that age is quite large. Conversely, at your ages (twenty or so) it is the least expensive you can get.

SHOW SLIDE 8-18 TERM LIFE INSURANCE

SHOW SLIDE 8-19 ANNUAL RENEWABLE TERM

b. **Level Term.** This is a policy with a stated amount of coverage and fixed annual premiums, usually for 5, 10, 15 or even 20 years. The idea is to provide a known cost to you in exchange for the policy that ends at the time stated. Many then convert to an annually renewable premium rate, but it may be quite high. And as you can guess, the “pure cost” in the first half of the time period is more than an annual renewable policy, but the cost in the last half is lower. Some companies have 5+5 where you get a level rate for the first five years with a guaranteed step increase for the next five years. This type of insurance is still quite inexpensive for a young and healthy person.

SHOW SLIDE 8-20 LEVEL TERM

c. **Decreasing Term.** Also sometimes called Family Protection Plan. This type of policy has a fixed premium and a fixed term of coverage, usually 15 to 25 years and over the term of years the coverage declines each year until the end when it is zero. The idea is to match the coverage to the need.

SHOW SLIDE 8-21 DECREASING TERM

2. The other type of life insurance, other than term, is cash value insurance. There are three main types as shown here.
 - a. Whole life was the standard of the industry for over a century. It comes in two forms, "participating," which pays dividends, and "non-participating," which does not. You can pretty much disregard non-participating. It's seldom sold today, and you shouldn't buy it. The primary features of whole life are that the amount of insurance and the premiums are fixed for your entire life, and the policy has a cash value that grows over time. This value may be paid to you if you survive to age 95 or 100, and after time, it provides a source of low-interest loans, which would, of course decrease the pay off if you died before the loan is repaid. The primary disadvantage of this type policy is cost. Others include comparison difficulties and a low rate of return on money invested.

SHOW SLIDE 8-22 CASH VALUE LIFE INSURANCE

SHOW SLIDE 8-23 WHOLE LIFE

- b. Universal Life operates like a combination insurance policy and savings account. It keeps track of the premiums you pay, deducts the cost of the insurance, and any cash value above the cost of the insurance earns interest at the current earnings rate of the insurance company. It is usually possible to adjust your amount of insurance, and therefore your premiums, up or down with this type policy. Disadvantages include high cost, no, or a low guaranteed interest, comparison difficulties.
- c. Variable Life policies are similar to universal life, except that savings deposits are kept in a separate account like stock and bond mutual funds. These policies are highly complex, and require extensive research prior to purchasing one.

SHOW SLIDE 8-24 UNIVERSAL LIFE

SHOW SLIDE 8-25 VARIABLE LIFE

E. Health Insurance. Health insurance covers several things, including doctors visits, diagnostic tests, surgery, hospital stays, and prescription drugs. It also includes disability insurance and policies that provide "no-strings" payments for such dreaded diseases as cancer. It is probably the least of your insurance concerns.

1. While you are on active duty, the US Navy is going to take care of the health care needs of you and your family. You don't need health insurance for yourself. Indeed, one of your many military benefits is "built-in" disability insurance. If you become disabled on active duty, you will be medically retired and receive as high a percentage of your pre-disability income as your civilian counterparts who must pay significant sums for such coverage.

SHOW SLIDE 8-26 HEALTH INSURANCE

SHOW SLIDE 8-27 NAVY HEALTH COVERAGE

2. If you have a family and your military hospital does not have the capacity, or perhaps the specialists, to treat their every requirement, you could be responsible for a small percentage of medical costs if care must be obtained in the civilian environment. Because even a small percentage of a large amount can be a financial strain, you may want to consider a CHAMPUS or TRICARE supplement for your dependents. Such policies usually have a very low monthly cost. You'll probably want such coverage for yourself as you approach retirement.

III. SGLI AND DEATH BENEFITS

You may recall that during our opening session yesterday morning we mentioned Serviceman's Group Life Insurance (SGLI) and the benefits paid in event of your death on active duty. We've covered quite a bit since then, so let's quickly review these items because they do bear on your insurance decisions.

- A. SGLI can provide up to \$250,000 in life insurance for the ridiculously low price of 80 cents per ten thousand per month. It should be your first life insurance consideration.

SHOW SLIDE 8-28 DEPENDENT SUPPLEMENTS

SHOW SLIDE 8-29 SGLI

DISCUSSION POINT**RELATED INSTRUCTOR ACTIVITY**

- B. You might recall that we discussed these military death benefits during our first hour yesterday morning. You need to consider them when you are determining the amount of additional insurance you may need.

V. FRIVOLOUS INSURANCE

There are several types of insurance policies that you should probably be quite leery of.

- A. Hospital Indemnity. As an active duty member of the military, you have little need to worry about hospitalization coverage.
- B. Dreaded Disease(s). These policies, written for specific diseases such as cancer, usually only pay for inpatient care. If you ever need a hospitalization policy, it should cover required care regardless of cause.
- C. Student Accident Insurance. These policies normally have very low limits on what they will pay. Additionally, you dependent students will be covered by TRICARE even in to their college years.

SHOW SLIDE 8-30 SURVIVOR BENEFITS

SHOW SLIDE 8-31 FRIVOLOUS INSURANCE

CLICK FOR BULLET

CLICK FOR BULLET

DISCUSSION POINT**RELATED INSTRUCTOR ACTIVITY**

D. Credit Life Insurance. These policies offer to pay off specific debts should you die or, in some cases, become disabled. They are profit generators for the companies selling them and seldom are a good value.

CLICK FOR BULLET

E. Credit Card Loss. These policies are often quite expensive, and you should know that your liability is generally limited to \$50 per card.

CLICK FOR BULLET

F. Rental Car Collision (CDW). If you own a car, chances are your policy will cover you when you are driving a rental. It also likely that your credit card provides some degree of coverage. Be sure you really need this expensive addition to the cost of renting a car before you agree to it at the counter.

SHOW SLIDE 8-32 MORE FRIVOLOUS INSURANCE

G. Accidental Death or Dismemberment. This feature, for an additional premium, doubles your life insurance payoff if you die from an accident. Your insurance amount should be based on your survivor's requirements, regardless of how you die. Also keep in mind that most people, even those who die young, do so of natural causes.

CLICK FOR BULLET

DISCUSSION POINT	RELATED INSTRUCTOR ACTIVITY
<p>H. Flight Insurance. You pay \$14 for a million dollar payoff if you die on the flight. Better to buy 14 lottery tickets. You don't have to die to collect if you hit the jackpot.</p>	<p>CLICK FOR BULLET</p>
<p>I. Pet Insurance. Policies cost from \$40 to \$100 per year. They often don't cover leukemia or other major illnesses.</p>	<p>CLICK FOR BULLET</p>
<p>J. Extended Warranties. Most major purchases come with sufficient warranties to protect you in the event you purchased a "lemon." Companies wouldn't offer these extended warranties if they didn't think they would make money off them. Guess who they make it from?</p>	<p>CLICK FOR BULLET</p>
<p>VI. INSURANCE FRAUDS, SCAMS, AND SALES TACTICS</p> <p>A. Most individuals who work in the insurance industry are honest and ethical. However, young Sailors are often targeted by those who are not. A recent investigation by the DoD Inspector General documented several instances of improper insurance sales practices including misleading presentations, presentations by unauthorized personnel, presentations to captive audiences, and trying to sell during duty hours or in the barracks.</p>	<p>SHOW SLIDE 8-33 INSURANCE FRAUDS, SCAMS, AND SALES TACTICS</p>

B. Two tactics known to have been used by unethical salespersons are convincing the young Sailor to drop SGLI because it does not build cash value, and claiming non-existent dependents to decrease income tax withholding in order to “invest” the “additional” take-home pay in high-cost cash value life insurance. In this latter case, the Sailor gets a rude shock on April 15th when he or she discovers they must write a sizable check for income taxes.

C. As with any major purchase, don’t be rushed in to making a decision. Any “good deal” available today will likely be there tomorrow. Sleep on it, and be sure to have any contract reviewed by Navy Legal Services PRIOR to signing.

VII. SOUND ADVICE

Here are some tips to help you through the insurance jungle. Be sure to consider your military benefits when determining your insurance requirements. Don't get pressured into a decision, like buying auto insurance at a car dealership. Shop hard using several agents and the internet. A few hours spent now can mean thousands of dollars over your lifetime.

CLICK FOR BULLET

CLICK FOR BULLET

SHOW SLIDE 8-34 SOUND ADVICE

VIII. SOURCES OF ASSISTANCE

As a member of the military, you have several sources of help in determining your insurance needs and meeting your requirements. Navy Mutual Aid will assist you in comparing rates and relative value of term and cash value life insurance policies. Navy Legal Services is always ready to review any contract you are considering. In addition, there are several internet sites, not aligned with any insurance company that will assist you in finding the lowest cost insurance policies to meet your needs.

SHOW SLIDE 8-35 SOURCES OF ASSISTANCE

SHOW SLIDE 8-36 SUMMARY QUESTIONS

Note to Facilitator

Ask the following questions:

1. What is renter's insurance?
2. What does renter's insurance typically cover?
3. What are the two main types of life insurance?
4. What is the main difference between the two types of life insurance?
5. How do we determine how much life insurance we should carry?
6. Name two types of life insurance scams.
7. How do we deal with high-pressure tactics of insurance salespersons?
8. Where do we go for advice or assistance?

IX. SUMMARY

In this lesson, we have discussed a subject of vital interest to you for the rest of your lives - insurance. We covered four primary types of insurance with particular emphasis on the different automobile policy provisions and types of life insurance available. We reviewed your military benefits that you should consider when determining your personal insurance requirements. We talked about some frivolous insurance you might be tempted to purchase and gave some sound advice to aid you in shopping for your best insurance buys. As usual in these lessons, we concluded by telling you where you can find assistance with this portion of your financial life.

SHOW SLIDE 8-37 SUMMARY**SHOW SLIDE 8-38 EFFECTS OF COMPOUND INTEREST**